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Chairman: Mr. Abelian ..... (Armenia)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Mselle

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The meeting was called to order at 10 a.m.

Agenda item 115: Improving the financial situation of the United Nations (*continued*)

1. **Mr. Connor** (Under-Secretary-General for Management), presenting an analysis of the financial situation of the Organization at the end of 1998 and forecast for the year ahead, said that his statement would be circulated as an official document of the General Assembly (A/53/514/Add.2). He also drew attention to a series of charts which had been circulated informally.

2. Aggregate assessments had decreased from $4 billion in 1995 to $2 billion in 1998 and would be about $1.8 billion in 1999, which was encouraging. Regular budget assessments – just over $1 billion for 1998 – had been relatively flat over the past five years, whereas peacekeeping assessments had plummeted from their peak in 1995 to only $907 million in 1998. Tribunal assessments had risen steeply, reaching $99 million in 1998, and increasing again to $155 million in 1999.

3. There had been positive but small changes in 1998 in the three key indicators of cash, unpaid assessments, and amounts due to Member States for troops and contingent-owned equipment, although it was too soon to say whether those changes would be harbingers of continued progress.

4. Total combined cash at year end was $736 million in 1998, compared with $669 million in 1997. However, peacekeeping cash was down from $923 million in 1995 to $768 million at year end 1998, which was a negative sign. The decrease was due to lower peacekeeping assessments, together with the absence of significant arrearage payments by Member States in 1998.

5. The deficit in regular budget cash was down from $195 million at year end 1995 to only $40 million at year end 1998. That figure, which was much lower than in any of the previous three years, could be attributed to two main factors: first, the major contributor had made a significantly larger regular budget payment during the final quarter of 1998 than in previous years, with less being deferred for payment in the year; and, second, a record 117 Member States had paid their regular budget assessments in full by the end of 1998, a continued upward trend which the Secretary-General wished to acknowledge.

6. The timing of the payment by the United States was crucial to the financial position of the United Nations at year end. In 1998, national legislation had permitted prompter payment of the assessed amounts. However, if the United States reverted in the future to its previous pattern of payment, paying a larger portion of its assessment in the following year, regular budget cash deficits would again arise.

7. With those two positive developments, the need to cross-borrow from peacekeeping cash in order to fund the shortfall in regular budget cash had greatly subsided in 1998. That change had come about just in time, given the diminishing amount of peacekeeping cash available for borrowing.

8. Assessments for the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda had risen steeply because of the increase in their activities. Cash-flow numbers had therefore been presented separately, rather than being subsumed within the data for peacekeeping as in the past. Even with the larger cash balance, however, there would be no possibility of cross-borrowing from Tribunal cash, since Tribunal costs related mainly to salary and travel obligations, which must be paid currently.

9. Unfortunately, there had been only a marginal reduction in the level of unpaid assessments at year end from $2,062 million in 1997 to $2,031 million in 1998, despite the better payment record of the United States. The improvement in regular budget cash collections had not been matched in the case of peacekeeping and Tribunal assessments, and the overall rate of collection remained disappointing. In 1994, assessments had been high, but a relatively low level had been unpaid at year end; whereas, in 1995, despite the reduction in assessments, the amount unpaid had increased; in 1998, assessments had been much lower than in 1994, but unpaid assessments had remained high. The problem of arrears was becoming intractable. That fact was reflected by the greater number of Member States losing their right to vote in the General Assembly under Article 19. In 1995, the first notification with respect to Article 19 had listed 25 such States, whereas, in 1999, the number had been 42.

10. Despite the continuing high level of aggregate unpaid assessments, regular budget arrears were declining, totalling $417 million at 31 December 1998, compared with $564 million in 1995. The United States accounted for 76 per cent of all regular budget arrears and Brazil for 7 per cent, while the remainder was owed by 66 other Member States.

11. Total unpaid peacekeeping assessments had risen over the past year by $20 million to $1,594 million at year end 1998. There had been a decrease of $10 million in the amount owed by the Russian Federation and an aggregate reduction of $8 million in the arrears of other Member States. However, the amounts owed by the United States and

Ukraine had increased by $36 million and $2 million respectively.

12. Unpaid Tribunal assessments had aggregated $20 million at 31 December 1998, up $6 million since 1997. While the ratio of the amount unpaid to the level of assessments made during the year was only 20 per cent, far better than the ratios for regular budget and peacekeeping assessments, a warning note had been struck.

13. The level of debt to Member States for troops and contingent-owned equipment at year end 1998 remained virtually unchanged from the figures for 1997 and 1996, despite the decrease in peacekeeping assessments from $1.4 billion to less than $1 billion over the same period. New obligations incurred in 1998, totalling $204 million, had mostly been reimbursed to Member States, in line with the Secretary-General's intention not to allow the Organization's aggregate debt to rise. Also, a downward revaluation of equipment debt of $34 million had been made, resulting in year end debt of $872 million, a reduction of $12 million. However, it was clear that, at that rate of reimbursement, the Organization would be unable to liquidate its debt to Member States unless sizeable arrearage payments were received. A data sheet had been circulated informally showing the sums owed to Member States, including letters of assist and death and disability obligations. The Secretary-General was grateful to them for their patience and forbearance.

14. Turning to the outlook for the year ahead, he said that the positive developments that had begun in 1998 appeared to be continuing in 1999. As at 28 February, 49 Member States had paid their regular budget assessments in full, compared with 39 the year before. Some $405 million had been received, $88 million more than the comparable figure at the end of February 1998. Of those countries whose contributions represented more than 1 per cent of total regular budget assessments, France, Italy, Canada, the Netherlands, the Russian Federation, Australia, Belgium and Sweden had paid in full by the end of February, while Germany and the United Kingdom had paid significant amounts.

15. As to the regular budget cash balance projected for the end of 1999, the major unknown variable was the amount that would be received from the United States, since that would depend on the legislation enacted for the fiscal year beginning on 1 October. Three scenarios had been envisaged. Historically, the Secretariat had not included in its projections payments that were subject to the adoption of enabling legislation. Thus, in the first scenario, it had been assumed that no payments would be received from the United States after 1 October 1999. If that was the case, the regular budget cash amount on 31 December 1999 would be a negative $246 million. The second scenario presupposed that the United States would make an end-of-year payment similar to that received in the last months of 1998, resulting in a projected regular budget cash deficit of $46 million. The third scenario postulated that the United States would pay sufficient funds in the last quarter of 1999 to reduce its total arrears to the equivalent of two years' outstanding. A regular budget cash surplus would be the likely outcome, together with a higher combined cash amount.

16. The peacekeeping cash balance was more difficult to forecast since the pattern of payments was more complicated and less predictable than for the regular budget. There might also be additional assessments. In fact, the 1999 estimates had had to be revised downwards following the recent decision by the Security Council not to renew the mandates of the United Nations Observer Mission in Angola (MONUA) and the United Nations Preventive Deployment Force (UNPREDEP). Consequently, it was now forecast that peacekeeping assessments for 1999 would total only $650 million compared with $907 million in 1998. Peacekeeping cash available at the beginning of 1998 had been $768 million. Receipts during 1999 were expected to be constant, albeit lower than in 1998, allowing for average monthly disbursements of approximately $60 million, which would result in a peacekeeping cash balance of $738 million at 31 December 1999. That figure took account of estimated disbursements of $149 million to repay debt for troops and contingent-owned equipment. On that basis, the amount owed to Member States at the end of 1999 would be $864 million, only slightly down from the figure for 1998. The peacekeeping cash available must be held back to cover current and future peacekeeping activities more safely. The collection of assessments in arrears would thus remain the key to the repayment of debts to Member States.

17. The projections for the combined cash balance at the end of 1999 were based on the same three scenarios used for the regular budget cash balance forecasts. If the Organization only received cash for which enabling legislation already existed, combined cash at year end would total $492 million. But, if the sums received from the major contributor were equal to those paid in 1998, the resulting balance would be $692 million. In the best-case scenario, with the likely impact of Article 19 factored in, the combined cash balance at year end would be higher than in any recent year.

18. Thus, despite the positive developments of 1998, the Organization's financial future was still hostage to various factors of instability, namely the decrease in peacekeeping

cash; the unpredictable level and timing of payments by the United States; larger arrearages in assessment collections; and the debt to Member States for troops and contingent-owned equipment that simply could not be liquidated.

19. **Mr. Henze** (Germany), speaking on behalf of the European Union, the associated countries Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Lithuania, Poland, Romania, Slovakia and Slovenia, and, in addition, Liechtenstein and Norway, said that while a greater number of Member States had fully paid their contributions to the regular budget by the end of 1998 compared to the previous year, and cross-borrowing from peacekeeping budgets had significantly decreased, the Organization's financial situation remained serious and was increasingly attracting critical attention in the German national and the European Parliaments. Total outstanding contributions for the regular, peacekeeping and Tribunal budgets had amounted to some $2 billion at the end of 1998, about 65 per cent of which had been owed by a single Member State. Sustainable improvement would not be possible as long as Member States did not pay their arrears in full; all Member States must comply with their obligation under the Charter to pay their assessments in full, on time and without conditions.

20. It was particularly important for the United States of America, the Organization's major debtor, to pay its dues. As a permanent member of the Security Council it had a special responsibility towards the United Nations. While it was the largest contributor to the budget, its assessment was based on its capacity to pay based on agreed objective economic criteria, and it was also the sole beneficiary of the ceiling on contributions.

21. The practice of cross-borrowing from peace-keeping budgets in order to maintain the Organization's cash flow was at best imprudent, and potentially disastrous. The non-payment of contributions by some Member States put an unacceptable burden on countries that contributed troops and equipment to peacekeeping operations. The non-payment of arrears, especially by the Organization's major contributor and debtor, had contributed to the extreme difficulties being experienced in pursuing efficiency and the reform objectives proposed by the Secretary-General. It had also delayed long-needed investments in infrastructure. The comprehensive package of financial reforms proposed by the European Union some three years previously had yet to be thoroughly discussed, and progress in that area remained less than satisfactory.

22. **Mr. Barnwell** (Guyana), speaking on behalf of the Group of 77 and China, said that the Group wished to underscore the intergovernmental nature of the United Nations and reaffirm the legal obligation of Member States to bear the expenses of the Organization in accordance with its Charter and to pay assessed contributions in full, on time and without conditions. It recognized, however, the need to extend sympathetic understanding to Member States temporarily unable to meet their financial obligations owing to genuine economic difficulties. The continuing cash-flow deficit in the regular budget had regrettably obliged the Secretariat to resort to internal cross-borrowing from peacekeeping budgets. The consequent delays in reimbursement to those developing countries contributing troops and equipment continued to be of concern. The only viable solution was for Member States to honour their legal obligations and to pay their arrears promptly.

23. **Mr. Sulaiman** (Syrian Arab Republic) said that his delegation wished to support the statement made by the representative of Guyana on behalf of the Group of 77 and China. He also wished to announce that his country had paid the third annual instalment of the six payments of arrears due for peacekeeping operations and for the two International Tribunals. His country would not contribute towards the cost of the United Nations Disengagement Observer Force (UNDOF) or the United Nations Interim Force in Lebanon (UNIFIL). Its position with regard to those two forces was well known, namely, that the aggressor whose belligerence was the reason for their presence should pay their expenses. He affirmed his country's commitment to the payment of all arrears due for peacekeeping operations, in accordance with the six-year payment plan it had submitted to the Secretary-General in 1996. That plan would ensure that all arrears would be paid, with the exception of contributions towards UNDOF and UNIFIL.

24. **Ms. Aragon** (Philippines), speaking on behalf of the Association of South-East Asian Nations (ASEAN), said that she supported the statement made on behalf of the Group of 77 and China. The Organization's continuing financial difficulties were adversely affecting its ability to implement mandated programmes and activities fully and effectively. She regretted that peacekeeping funds continued to be borrowed to finance regular-budget activities, since that practice prevented the United Nations from reimbursing contributors of troops and equipment, many of which were developing countries.

25. The financial crisis was attributable not to the scale of assessments for the regular or peacekeeping budgets, but to the late payment or non-payment of assessed contributions, particularly by the major contributor. ASEAN took note of the pattern of payments made by the major contributor in the last quarter of 1998, and encouraged the latter to continue to progress along those lines. The practice of imposing

conditions for the payment of those dues should not be allowed to continue, as it was not in keeping with the letter and spirit of the Charter, to which all Member States had willingly subscribed. The early settlement of arrears and the timely payment of future assessments were the only effective means of solving the Organization's financial problems.

26. **Mr. Cho Chang-beom** (Republic of Korea) said he regretted that, at a time when the United Nations was being called upon to take on more responsibilities to meet new challenges, its ability to do so was continuously hampered by a recurring cash-flow deficit. Although regular-budget cash deficits had declined, as had cross-borrowing from peacekeeping funds, the root causes of the Organization's chronic difficulties had not yet been addressed, as shown by the fact that the year-end aggregate balance of unpaid assessed contributions for 1998 was virtually the same as that for 1997, while the level of unpaid assessments remained intractable.

27. The continuing practice of cross-borrowing from the peacekeeping budget to cover cash-flow deficits in the regular budget was financially imprudent and particularly detrimental to contributors of troops and equipment, whose reimbursements were already delayed. Moreover, as peacekeeping activities diminished, cross-borrowing might cease to be a viable option for cash management in the near future. The current crisis had resulted primarily from the major contributor's lack of political will to fulfil its financial obligations under the Charter. The Republic of Korea had consistently paid its assessments in full and on time, and called upon Member States in arrears, particularly the major contributor, to do likewise. Lastly, he regretted that the High-level Open-ended Working Group on the Financial Situation of the United Nations had failed to produce tangible results, and hoped that continued attention would be paid to various incentives to induce Member States to pay their dues on time.

28. **Mr. Sklar** (United States of America) said that his delegation recognized its obligation to pay the arrears owed to the Organization, and was working with the current Administration to resolve the problem. It would attempt to continue the practice of accelerating its regular budget payments in order to reduce the year-end borrowing made necessary by the arrears. The Under-Secretary-General's report had clearly indicated that the United States had met or exceeded its regular budget obligations for four of the past five years. In view of the Administration's ongoing efforts to deal with the arrears problem, as well as of his country's general legislative process, he urged the Committee to consider a payment level somewhere between the second and third of the three scenarios presented by the Under-Secretary-General as being the most likely.

29. He also urged the Secretariat to consider reducing the current positive cash balance for peacekeeping operations by a prudent amount and using the resulting funds to repay those troop-contributing countries whose national budgets had been most critically affected by the delayed reimbursement.

30. The scale of assessments for both the regular and peacekeeping budgets was indeed out of balance with the current economic conditions of many countries. His delegation recognized that that issue was unrelated to the problem of the arrears, however, as were the questions of management improvement and efficiency in the Organization. He also urged Member States to seriously consider eliminating programmes that were no longer relevant in order to free financial resources for programmes more applicable to current needs.

31. **Mr. Greiver** (Uruguay) said that his delegation fully associated itself with the statement made by Guyana on behalf of the Group of 77 and China. It was concerned by the persistence of the Organization's financial difficulties, particularly in connection with reimbursements to troop-contributing countries. It was unfair to expect some Member States to finance the failure of others to fulfil their obligations.

32. **Mr. Zhang Wanhai** (China) said that his delegation had noted that while the financial situation of the United Nations had improved only slightly, the largest contributor was still in arrears and, as a consequence, the Organization continued to be obliged to borrow from peacekeeping budgets, and troop-contributing countries were still owed a large amount of money.

33. His delegation supported the statement made by Guyana on behalf of the Group of 77 and China, and pointed out that the current financial crisis was unrelated to the issue of the scale of assessments, which had been agreed to by all Member States. Despite adverse domestic conditions, the Chinese Government had not only paid its assessment for the current year in full, but had done so at an earlier point in the year than previously. On the eve of the new millennium, all Member States, especially the major contributor, should make earnest efforts to fulfil their obligations to the Organization in full, on time and without conditions.

34. **Ms. Buergo Rodríguez** (Cuba) said that she fully supported the statement made by the delegation of Guyana on behalf of the Group of 77 and China. The information presented at the current meeting showed that the

Organization's cash-flow position was still critical. The only hope for a lasting solution to that problem was offered by the countries listed in chart 10, which had paid their regular-budget contributions in full, and by other countries, such as Cuba, that were striving to meet their financial obligations to the United Nations. As a result of its efforts in 1998 to pay its arrears to the regular and peacekeeping budgets and to the budgets for the International Tribunals, Cuba trusted that, in 1999, it would join the countries listed in chart 10.

35. The payment of assessed contributions in full, on time and without conditions was particularly important in the case of the major contributor, since it would change the financial situation considerably. The continued delays in reimbursing troop contributors remained a cause of concern. Her delegation took note of the slight decrease in the Organization's deficit and in the indebtedness of the major contributor, as well as the reductions in the regular and peacekeeping budgets. Lastly, she stressed that the approved scale of assessments for the regular and peacekeeping budgets had no impact on the Organization's financial situation and that full and timely payment of those assessments was the only solution to the current crisis.

36. **Mr. Orr** (Canada) urged all Member States to honour their financial obligations to the Organization. With respect to chart 28, he asked for an estimate, based on current forecasts of 1999 assessments for the regular and peacekeeping budgets and for the budgets of the International Tribunals, of the amount which the major contributor would have to pay in 1999 to bring its arrears below its assessment level for the previous two years.

37. **Mr. Medina** (Morocco) said that, in the table showing the status of amounts due for troops and contingent-owned equipment, the figure given for Morocco was far below the actual amount due. He wondered how the figure had been calculated.

38. **Mr. Connor** (Under-Secretary-General for Management) said that he wished to state firmly and unequivocally, in reply to the United States delegation, that the essence of prudent financial management was to hope for the best and prepare for the worst. The major uncertainties affecting the Organization's future financial position meant that the amount of cash in the peacekeeping budget could dry up very quickly. The proposal made by the United States concerning the reimbursement to certain contributors of troops and equipment would involve the disbursement of preferential payments, which had not been authorized by Member States. The manner in which reimbursements were paid to Member States was very structured, and the cash paid out had to come from the relevant mission account.

39. In reply to the representative of Canada, he said that he could not disclose the information requested because of the difficulty of forecasting, at the current time of year, how much any given Member State would have to pay in order to avoid the application of Article 19 of the Charter. The amount required could be affected by a number of factors, such as national legislation and Security Council decisions regarding peacekeeping missions. If the major contributor paid the same amount in 1999 as in 1998, the Organization's cash-flow position would still be negative. However, if it paid enough of its arrears to avoid the application of Article 19, the Organization's cash-flow position would be above zero.

40. In reply to the Moroccan delegation, he said that the amounts due to Member States for troops and equipment did not include additional payments due for letters of assist and death and disability claims, since the Organization's practice was to honour its obligations under the latter two items as promptly as possible.

Other matters

41. **Mr. Sulaiman** (Syrian Arab Republic) said that he was still awaiting an answer from the Secretariat to the questions he had asked previously concerning the telephone system and the garage at Headquarters.

The meeting rose at 11.30 a.m.